

USAID NIGERIA BUDGET PROCESS SUPPORT PROJECT
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QUARTERLY REPORT: OCTOBER - DECEMBER 2004

SUBMITTED BY:

DEVELOPMENT ALTERNATIVES INC.

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Acronyms

BMPIU - Budget Monitoring and Price Intelligence Unit

BOF - Budget office of the Federation

BPS - Budget Process Support Project

CBN - Central Bank of Nigeria

DG - Director General

FIRS - Federal Inland Revenue Service

FOS - Federal Office of Statistics

IMF - International Monetary Fund

MOF - Ministry of Finance

MTEF - Medium Term Expenditure Framework

NEEDS - National Economic Empowerment and Development Strategy

NDI - National Democratic Institute

NPC - National Planning Commission

OAGF – Office of the Accountant General of the Federation

Executive Summary

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To support the government's increasing interest in the non-oil sector, the Budget Process Support (BPS) Project has developed a macroeconomic model complimentary to the non-oil model to serve as a benchmark for analytics of macro accounts. A forthcoming workshop on macroeconomic modeling is slated for late February to expose members of the macroeconomic group and the BOF to the basic assumptions in the model for further use.

Expenditure management by Relationship Managers of the Budget Office of the Federation (BOF) – a new concept, careful planning of resource needs, and incentives to augment capital budgets through savings in recurrent budget are some of the features of the plan. Sound expenditure management is expected to reduce the deficit from 1.7% of Gross Domestic Product (GDP) in 2005 to 0.6% of GDP in 2007. A workshop is being planned for March to enhance the capacity of the Relationship Managers vis-à-vis their counterparts in the ministry on the MTEF.

As part of consultation sessions, the BPS project held sessions with select staff of the customs unit on the non-oil revenue model. Different scenarios of their annual budget were developed given simulations of average tax efficiency rate.

In collaboration with the National Democratic Institute, the BPS project presented a technical session to the legislature on macroeconomic budgeting mix. The collaboration is expected to build analytical capacity for the legislature.

Budget Monitoring and Price Intelligence Unit (BMPIU) continued with its communication strategy (New budget of \$144, 000), designed to generate greater awareness of the Due Process.

A new partnership with the African Institute for Applied Economics was cemented, with reference to the BBI network on competitiveness.

Work continued with the preparation of syllabus and training for macroeconomics and budgeting for the BOF staff.

Activity Objectives

In August 2002, USAID/Nigeria awarded Development Alternatives, Inc. (DAI) a Task Order under the SEGIR: Economic Policy Indefinite Quantity Contract to implement the "Technical Assistance in Budget Process Support Project." The Project's anticipated completion date is April 2005.

The Budget Process Support (BPS) Project assists the Government of the Federal Republic of Nigeria (GFRN) in two areas – budgeting and the Due Process for Federal procurement. The beneficiary agencies are the Budget Office of the Federation (BOF), within the Federal

Ministry of Finance; and the Budget Monitoring and Price Intelligence Unit (BMPIU) of the Presidency. The BOF is the principal agency responsible for the Federal budget. The BMPIU is mandated to ensure accountability and probity for the Due Process of Federal procurement and contracts. A Team Leader/Project Economist, assistant economist and short-term technical advisors are working to enhance capacity in developing, implementing and monitoring the budget process, and support the BMPIU's activities.

Quarter Progress

Budget Office of the Federation

- ❑ **2004 Budget – January-June Assessment^{1*}**: The Ministry of Finance released a six-month assessment of implementation of the 2004 Budget for the January-June period. Revenue performance for the period was 29 percent higher, reflecting the robust oil market. Fiscal policy was counter-cyclical, in contrast to previous years, with strict adherence to budgeted expenditure limits despite higher-than-budgeted oil prices. This led to a sharp improvement in the overall fiscal balance. As of end-June, the deficit was N121 billion versus N181 billion estimated for the full-year.

The late passage of the Appropriation Act of 2004 delayed the implementation of the capital budget. While actual disbursement of N200 billion was reasonable against the plan of N175 billion, utilization (N86 billion) was low, which partly reflected the weak capacity of the ministries to follow the Due Process. The fiscal and monetary policies lowered the inflation rate (14.1 percent, end-June) and the exchange rate stabilized at about 133 to the US dollar (end-June). There are indications that activities in the agricultural, industrial, and commercial sub-sectors were strong, partly reflecting the effect of increased credit. Developments in the economy within the first six months increased the level of foreign reserves to \$11.4 billion, equivalent to 8.8 months of imports.

- ❑ **2005 Budget^{*}** – On October 12 2004, the President presented the proposal for the 2005 Budget and the accompanying Appropriation Bill to the National Assembly². The Budget introduced the Medium Term Expenditure Framework (MTEF) over a three-year period (2005-2007), marked a departure from the annual budgeting system, and represented a sea-change in fiscal management. *Relationship Managers* of the BOF – a new concept – will be responsible for managing expenditures through liaison with various ministries, departments and agencies. The Budget was presented considerably earlier than previous years³. The main theme is “Building Physical and Human Infrastructure for Job Creation and Poverty Eradication.” It is the second budget since the launch of the National Economic Empowerment and Development Strategy (NEEDS) and carries forward the work that began in Budget 2004 to reform the economy. The Budget assigns priorities to investments in the sectors identified in NEEDS (roads, power, water supply, agriculture, education, health, and national

* While these are not activities of the Project, it is believed that they benefited from the assistance.

¹ A note prepared by the BPS Project was submitted to USAID.

² A separate note was presented to USAID. The Appropriation Bill seeks authorization on expenditures.

³ The budget for 2004 was presented on December 18, 2004 and the Appropriation Bill was passed on April 21, 2004.

security). Broadly speaking, capital expenditures for NEEDS' components represent about 45 percent of total capital budget vis-à-vis 65 percent earmarked in the Strategy⁴.

The Budget alludes to various changes such as increasing disclosure, reinforcing accountability, raising performance standards by ministries, meeting the Millennium Development Goals (MDG) and supporting the vulnerable.

The deficit is projected at N314 billion and reflects considerable expenditure growth (over 24 percent). The entire deficit would not need financing in a customary sense. The financing mechanisms are estimated to be as follows: 2004 savings from excess crude – N158 billion⁵ (2004 year), privatization proceeds – N4 billion, sale of government properties – N15 billion, looted fund recovery – N10 billion, capital market (domestic) – N70 billion -- a total of N 257billion and this would leave a gap of N57 billion. Should the savings from excess crude surpass N 158B, the gap would diminish. It should be noted that in the absence of robust oil prices, the fiscal position of the government would not be as buoyant.

Economic and fiscal outlook:

The Budget follows the following assumptions:

- Oil output - 2.68 million barrels/day (2.25 in 2004), oil price \$27/barrel – 8% higher than 2004 (\$25/barrel)
- Inflation - 10%
- GDP growth - 7%
- Reserves - \$11 billion

⁴ See Annex I.

⁵ A total of Naira 609 billion is projected as savings from the excess crude for the Federation Account by end-2004. The Federal government's share is estimated at Naira 316 billion.

Table 1
2005 Budget: Selected Figures

<u>Expenditures</u>	Naira (billion)		% of Sub-total (Recurrent plus debt)	% of Total	Year/year change
	<u>2004</u>	<u>2005</u>			<u>2005</u>
Transfers	44	76.4	7.1%	4.7%	73.6%
Debt service	370	361.0	33.6%	22.3%	- 2.4%
Domestic	186	191.1			
Foreign	184	169.9			
Recurrent non-debt	539.3	635.9	59.2%	39.3%	17.9%
Sub-Total (recurrent plus debt)	953.3	1,073.3	100.0%	66.3%	12.6%
Capital	349.8	544.3		33.6%	55.6%
Total	1,303.1	1,617.6		100.0%	24.1%
<u>Revenues</u>	Naira (billion)				Year/year change
	<u>2004</u>	<u>2005</u>			<u>2005</u>
Federally-collectible revenues	3,020	3,619			19.8%
Federally-retained revenues	1,120	1,304			16.4%
Deficit	181	314			

Figures many not add due to rounding or adjustments

- ❑ **Training - Macroeconomics and Budgeting:** In November 2003, the Project office started training the core staff (about 125) of the BOF. The training, facilitated by the Team leader is intended to serve as a primer over a range of issues – concepts in macroeconomics to public expenditure management and budgeting. Two weeks of intensive training has been done for a batch of some 45 staff. A reference text (over 160 pages) has been prepared. In the area of budget management, it illustrates certain principles and advocates mechanisms generally accepted in the public finance literature. As a sound economic framework is the foundation of the MTEF, an initiative announced in the 2005 Budget, emphasis is placed on expenditure management; medium-term budgeting; principles of fiscal discipline i.e. allocation of resources in accordance with strategic priorities (e.g., NEEDS); and efficient and effective use of resources for strategic priorities.

At the end of the training sessions, the staff members would have a higher knowledge of the budgeting and macroeconomic mix and should be able to manage the budget process more effectively. The training is expected to end in February, 2005.

- ❑ **Legislative briefing:** To support the National Assembly with budgetary issues and to reinforce NDI's efforts in this arena, a number of briefings were provided.
 - NDI invited the then Chief of Party/Senior Budget Officer as a guest lecturer on medium-term budgeting in an October retreat held in Kaduna for the members for the National Assembly.
 - In November 2003, a briefing on macroeconomics and budgeting was provided to the House Committee on Appropriation/Finance by the Team Leader and a visiting advisor on BPS mission.
- ❑ **Capacity Strengthening:** The Macroeconomic Working Group attended a training session for a week on macroeconomics issues and modeling at the National Centre for Economic Management and Administration in Ibadan. The training was appreciated by participants. It reinforced their on-going sessions provided through the Project and allowed an opportunity to augment analytical skills.⁶ The training serves as a complement to the weekly lectures and seminars facilitated by the Team leader since November 2003.

Budget Monitoring and Price Intelligence Unit

- ❑ **Communication Strategy:** The BMPIU continued with its communication strategy, which is designed to generate and sustain greater awareness of the Due Process. The budget for the communication strategy, prepared in June 2004, had been realigned in the last quarter. Based on a request to USAID from the Special Assistant to the

⁶ The members from the following agencies: the Budget office of the Federation; Office of the Accountant General of the Federation; National Planning Commission; Federal Office of Statistics; Central Bank of Nigeria; Ministry of Finance; and Federal Inland Revenue Service.

President and Head of BMPIU, additional funds were added to the June budget to deepen the communication strategy.

The activities relating to public enlightenment, media relations and contractor's forum continued to generate considerable positive media coverage dispelled the misperception of the Due Process.

Work also continued on website development.

- ❑ **Human Resource Restructuring:** As the BMPIU evolves, the agency is reviewing its personnel structure. It has hired consultants who are not within the civil service scheme. The BMPIU would like to “regularize” the employment arrangement of the consultants to full-time positions within the civil service. A visiting advisor provided assistance, which focused on regularizing the current staff of consultants with reference to what is obtainable in other sectors (Banking, Oil, Construction, etc.)

Project Changes

- ❑ BPS project management was restructured to appear on target, and to complete all of its workplan objectives. This includes providing additional support to the BMPIU communication strategy and supporting the Better Business Initiative Network without affecting the existing commitments. This led to a one month extension to ensure completion of all activities. Mr. Kanayo Ogujiuba, the Project economist assumed the role of Acting Team Leader as a result of the termination of the resident Chief of Party position as at December 3rd 2003.

Impact on Intermediate Result

Government of Nigeria's economic policy formulation process improved

In summary, the assistance in budgeting includes initiatives aimed to improve public expenditure management, strengthen institutional structure, increase transparency, support the development of an information technology plan, enhance technical capacity, and introduce a multi-year budget process. These are aimed at supporting a sound macroeconomic framework – a principal objective of the NEED Strategy.

Assistance to the BMPIU's Due Process is principally in three areas: human resource restructuring, sponsoring a communication strategy and the development of a website (under way).

Various outcomes and decisions demonstrate that the efforts of the BPS Project are contributing to an improved policy environment.

- The draft 2005 Budget⁷ was announced on October 12, 2004 - ahead of other years.
- The MTEF would strengthen public expenditure management.

⁷ The BPS project submitted a draft fiscal strategy paper to the BOF that informed the preparation of the 2005 appropriation bill.

- The new chart of accounts would heighten transparency.
- Positive stories in the media about BMPIU's communication strategy are dispelling the misperception of the Due Process.

Problems and Opportunities/Upcoming Events

Problems and opportunities

The project faces various challenges as well as opportunities. A few are outlined below:

- ❑ The training in macroeconomics and budgeting for the BOF calls for considerable effort and intense activities of the Project.
- ❑ Liaison with other Implementing Partners (e.g., NDI, Prospects etc.) will support cross-cutting objectives, such as legislative strengthening.
- ❑ The BPS project is well positioned to make a positive difference in improving the budgetary process and support the Government in its economic reform initiatives.

Upcoming Events

The project will be finalizing various activities in the next quarter in the following areas:

Continuing support to the Macroeconomic Working Group, the BOF and other agencies

This would entail weekly sessions on the analytics of macroeconomics vis-à-vis budget management. An enhanced participants training on excel and e-views software is being planned for the macro group and select officers of the budget office. The training is to enable the participants leverage on past discussions and get ready for the Macro modelling workshop by Paul Beckerman.

The macro group would also be assisted to develop a draft framework for the medium term framework. Lessons from other African countries would be reviewed and how best Nigeria can leverage.

The BOF macroeconomic and budgeting training would continue for another three weeks. An enhanced participants training would be organized as part of our budget reform process to strengthen the legal framework for fiscal management and codify the fiscal management reform initiatives.

Macroeconomic workshop

This would serve as a follow-up to the revenue model we developed for the BOF this year and act as leverage for further analytics on the assumptions guiding the Budget Process and overall macro framework. The members of the macro group would assist Paul Beckerman {STTA} in facilitating the workshop for the BOF.

Line Ministries Training on the MTEF

This is a line item that needs to be addressed that would complement what is already on ground. If the line ministries fail, the concept would be difficult to implement. The training would aim at strengthening the capacity of budget officers in the line ministries vis-à-vis the relationship managers at the Budget office. This is crucial for the success of the MTEF concept recently adopted by the government. Arrangements are on for the logistics.

Capital Budgeting workshop

The workshop would aim at strengthening capacity for project analysis at the BOF and their counterparts in the line ministries with regards to Cost-Benefit analysis of Capital Projects. This is central to '*NEEDS*' implementation given the relevance of social return to growth process. *BMPIU* sector specialists could be included for the programme for the broader goal.

Better Business Initiative (BBI)

BBI coordinated by the African Institute for Applied Economics is sponsoring a National Forum⁸ on Competitiveness and Private Sector Growth in April 2005. The BPS project is supporting the forum by about \$57,600. The Forum will engage private and public sector participants in workshops on Macroeconomic Policy, Infrastructure, Institutional and Regulatory Reform, Agriculture, and Small and Medium-Scale Enterprises to develop recommendations for change. This is the essence of **Intermediate Result 12.4**, "Improved Policy Environment," which BPS also supports. This activity is consistent with BPS's SOW, and central to the government's reform agenda (*NEEDS*).

BMPIU

The BPS project have concluded arrangements with the *BMPIU* media expert- Mr. Orji on the return by January ending of Mr. Roy Niggard-{Communications expert that helped *BMPIU* in drafting the strategy currently being implemented} early next year for technical input to the overall process. It is envisaged that Roy would be assisting the *BMPIU* during the Due Process Citizen's Network Kick Off early next year and guide the BOF as they develop their own communication strategy.

NDI/DAI Partnership

Plans to have continuous strategic sessions with the Honourable Members of the National Assembly on the specifics regarding the budget process are being worked on at the moment. We have had one of such {***Macroeconomics and Budgeting***} on the 23rd of November when a visiting TDY-Jonathan Dunn presented a paper. Another session is being planned for February ending on the macro accounts and its linkage to budget process. Specific details would become clearer in the coming weeks.

In addition, the BPS project would:-

⁸The Forum will complement the activities of the BPS Macroeconomic Working Group and further the civil society dialogue within which the Ministry of Finance is engaged.

- ❑ Engage an expert to review the past work on non-oil revenue modeling and a macroeconomic model.
- ❑ Engage an Economic Consultancy to do an evaluation of the BMPIU communication strategy in all the six geo political zones.
- ❑ The BOF website revamping and Local Area Network structural cabling details are top on priority list. Discussions between our office-(BPS), Budget Office technical crew and the vendors have reached advanced stages. Finalize the assessment of the local area network for the BOF and select a vendor to deliver the project would be done in the following weeks.

TraiNet

Information in this area has been submitted under a separate report to USAID.

Annex I

FEDERAL GOVERNMENT OF NIGERIA: 2005 BUDGET APPROPRIATION BILL

ALLOCATION BY MAJOR MINISTRIES AND PROGRAMS - RECURRENT (NON-DEBT)

	Naira	% of Recurrent
Agriculture & Rural Development (*)	10,227,891,872	1.6
Power & Steel (*)	1,162,869,389	0.2
Education (*)	86,761,011,189	13.6
Works (*)	17,898,893,308	2.8
Pension - (pay-as-you-go system, insurance and redemption fund)	97,548,386,530	15.3
Housing & Urban Development	4,756,265,561	0.7
Water Resources & Rural Development (*)	2,622,086,167	0.4
Health (*)	38,685,381,385	6.1
Police affairs, formation and commands (*)	72,167,427,115	11.3
Others	304,087,031,956	47.8
Total Recurrent	635,917,244,472	100.0

ALLOCATION BY MAJOR MINISTRIES AND PROGRAMS – CAPITAL	Naira	% of Capital
Agriculture & Rural Development (*)	9,275,850,000	1.7 (4) ⁹
Power & Steel (*)	75,023,000,000	13.8 (15) ¹⁰
Education (*)	22,948,280,000	4.2 (8)
Works (*)	61,404,000,000	11.3 (15) ¹¹
Housing & Urban Development	3,000,000,000	0.6
Water Resources & Rural Development (*)	39,084,100,000	7.2 (10)
Health (*)	21,125,600,000	3.9 (8)
Police affairs, formation and commands (*)	15,060,050,000	2.8 (5) ¹²
Others	297,397,792,000	54.6
Total Capital	544,318,672,000	100.0

STATUTORY TRANSFERS	76,441,821,000	-
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DEBT SERVICE	361,054,000,000
% of Total Expenditure	22.3%
- Foreign	169,974,000,000
- Domestic	191,080,000,000

TOTAL EXPENDITURE	1,617,731,737,472
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Note: Sectors with asterisks (*) are denoted as priority areas in NEEDS. The Roads sector, which falls under the category of Works, is a priority in NEEDS. Broadly speaking, capital expenditures for NEEDS' components represent about 45 percent of total capital budget vis-à-vis 65 percent earmarked in the Strategy.

Once again, thanks for all the efforts you and your team have put into the project.

⁹ Targets stated in NEEDS are in italicized parenthesis.

¹⁰ The figure in parenthesis refers to Power only.

¹¹ The figure in parenthesis refers to Roads only.

¹² In NEEDS, "Police affairs, formation and commands" are subsumed in Security.